



# INTEREST RATE POLICY

*Approved by the Board of Directors in their meeting held on 27/05/2024*

## **1. INTRODUCTION**

Reserve Bank of India has vide circular DNBS. CC.PD. No.266/03.10.01/2011-12 dated 26 March 2012 (Guidelines on Fair Practices Code for NBFCs) directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs.

Keeping in view of the RBI's guidelines and the specific points referred to in the above referred RBI circular as mentioned below, the Company has been following certain procedures and practices in the matter of fixing interest rates on gold loans and other loans (assets)

- Charging of excessive interest rates by NBFCs.
- The need for adoption of an interest rate model along with an approach for gradations of risk & rationale for charging differential rates.
- Disclosure of rates of interest rates changes thereof and publicity thereto.
- Adoption of annualized rates of interest while dealing with customers.

## **2. OBJECTIVES**

The main objectives of the interest rate policy are to ensure:

- Long term sustainability of the business by taking into account the interests of all loanees which is the main factor to determine the interest rate,
- Develop and adopt a suitable model for calculation of a reference rate,
- Fixation of reasonable interest rates.
- That the rates are fixed considering the Operation costs in the business, risk factors and reasonable, market-competitive rate of return.
- Ensure that computation of interest is accurate, fair and transparent.

## **3. Methodology for calculation of interest on loan accounts**

The main spirit underlying the methodology is to project a transparent and fair approach to the customers and also be in readiness to adopt the practices now in vogue amongst NBFC's keeping in view the peculiarities of the gold loan business.

**3.1. On the daily balances:** Interest amount shall be calculated on the daily outstanding balance in the loan account at the applicable rate. Thus if the annualized rate of interest applicable is R% the interest amount for each day would be.  $(\text{Amount outstanding} \times R) \times (365/360)$ .

**3.2 Minimum period for which interest chargeable:** The minimum period for which interest is payable by the borrower shall not exceed 7 days or Rs.25 whichever is higher. Interest receivable shall be calculated on the actual daily outstanding balance.

**3.3 Basis - number of days per year:** Interest shall be calculated based on 360 days a year. Dates of disbursement and closure of account shall both be included for computation of interest. However, MD may approve any deviation on the inclusion or exclusion of days' interest rate and slab etc.

**3.4 Compounding:** Compounding of interest where applicable, as provided in the loan scheme, shall be at a frequency of 30 days in a year.

**3.5 Annualised rate of interest:** Interest rate quoted shall be on an annualized basis in all documents, internal instructions/ communications and publicity materials (pamphlets, brochures, hoardings, etc)

Where the rates are mentioned in a non-annualized form (e.g. in product promotion) the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code.

**3.6 Fixed rate / Floating rate:** All the loans shall be granted at a fixed rate only.

**3.7 Maximum/ Ceiling Interest Rate on Gold Loans:** Keeping in view the regulatory (RBI) expectations from NBFCs and also the Fair Practices Code the maximum interest rate chargeable shall be fixed at 33% p.a during the normal loan tenure across all states/regions excluding compounding effect were applicable under any schemes.

Overdue interest and other out of pocket expenses, wherever applicable charged from the borrowers will be exclusive of the ceilings mentioned above.

The above-mentioned ceilings shall be reviewed periodically at quarterly intervals or more frequently, as and when required, by the Board of Directors keeping in view regulatory guidelines/directives, the intensity of competition in the market, net interest margin target, market rates etc.

## **5. Risk-Based Gradation of Interest Rates.**

The Lending Rate will be different for different categories of borrowers, considering the profile of the customer, tenure of the customer relationship, past repayment track record, customer segment, market reputation, inherent credit and default risk in the products, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, Loan-to-Value (LTV) ratio, nature and value of primary and collateral security etc. The Lending Rate is determined on a case to case basis.

The company shall disclose the rate of interest in the application form and communicate explicitly in the sanction letter.

## **6. Pricing of gold loans**

### **6.1 Rate of interest.**

- Considering the nature of the Gold loans (collateral valuation being vital) the major inherent risk is the Loan to Value (LTV) or Loan per Gram. Since a higher LTV translates to a higher risk it stands to reason that LTV and Interest rate should be correlated. Accordingly, assuming all other factors to be the same, a higher LTV loan should attract a correspondingly higher interest rate as compared with a lower LTV loan.

- The LTV linkage with interest rate shall be at the time of sanction of loan and cannot be changed subsequently due to movements in the overall collateral coverage arising from market movements in gold prices,
- Where substantially low rates of interest are charged on certain/special schemes or in specified regions/areas/branches the maximum amount per borrower shall be appropriately restricted and checks put in place to prevent misuse of the facility. Such schemes shall be periodically reviewed and appropriately modified to meet with the overall objectives of floating such schemes.

**6.2 Calculation of interest and the due date for servicing interest:** Interest will be calculated from the date of disbursement and shall be charged for the day of closure of the account. The due date for payment of interest shall run from the date of disbursement.

**6.3 Slab change :** When the loan remains outstanding beyond the tenure of the loan scheme, the next slab will be applicable at a rate of 28% or 3% above the last slab of the scheme, whichever is higher. However, A committee consisting of the Chief Executive Officer, Chief Financial Officer and the Managing Director may approve any deviation on the inclusion or exclusion of days, interest rate and slab etc.

## **8. Indicative range of interest**

Indicative range of interest for various verticals/loan products of MMFL is given below.

<b>Verticals / segments / product</b>	<b>Range (Annualised Rate)</b>
<b>Gold loans</b>	<b>6.5 – 33%*</b>
<b>Micro Finance</b>	<b>26%-30%</b>
<b>LAP</b>	<b>14 – 32%</b>

Special Rebates may be given to the customers who are paying regular monthly interest or willing to regularise the account as per the discretion of the management.

## **10. Other Charges and recovery of Out-of-Pocket Expenses**

### **10.1 Gold loans**

The Company may also levy other charges such as loan processing fees, processing charges for delivery of gold against lost pawn ticket, statement of account, closing charges, POS payment charges etc. In addition, the Company shall be entitled to recover costs incurred in connection with postage, legal costs etc. The above charges shall be pegged at reasonable levels and in the spirit of Fair Practice.

- Guidance rates are as under:

<b>Description</b>	<b>Range of charges</b>	<b>Exceptions</b>
Loan processing	Will be capped at minimum of Rs.10 limited to a maximum of 0.5% of Loan disbursement.	
Delivery against lost Pawn Ticket – processing charges	Rs 150 per pledge	
Postage, Courier charges	As per Existing circular	

## **10.2 Other charges (Non- gold loans)**

	Processing fee (%)*	Overdue interest (%)	Bounce charges (Rs)*
Micro Finance	2% of Loan Amount	nil	NA
LAP	Up to 1% of Loan Amount	Up to 2% of Outstanding	Up to Rs. 1000/ transaction

\* GST as applicable shall be charged extra

## **11.1 Miscellaneous**

There may be exceptional economic situations that may result in a change in the liquidity environment and the availability of funds to the Company. The interest policy shall be subjected to review once a year and as may be required to suit such situations

- The rates of interest for the same product and tenor availed during the same period by different customers need not be standardized but could be different for different customers depending upon consideration of factors like location of the customer, credit risk, liquidity risk and tenor risks.
- MMFL shall intimate the borrower loan amount, annualized rate of interest, periodicity of interest application, tenure and wherever applicable the amount of monthly instalment. at the time of sanction of the loan.

The company shall not charge foreclosure charges/pre-payment penalties on loans granted except for EMI schemes.

All other regulatory changes in this regard will stand updated in the policy from time to time.

## **MICROFINANCE**

The interest rate in MFI lending is regulated by RBI vide notification DNBS. (PD) CC. No. 395/03.10.38/2014-15 dated 01.07.2014, applicable to all licensed NBFC- MFIs. The extracts of the same are detailed as below

### **Pricing of Credit**

1. The margin cap for all NBFCs irrespective of their size was 12 per cent till March 31, 2014. However, with effect from 1st April 2014 margin caps as defined by Malegam Committee may not exceed 10 per cent for large MFIs (loan portfolios exceeding Rs.100 crore) and 12 per cent for the others.
2. With effect from the quarter beginning April 01, 2014, the interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following
  - A. The cost of funds plus a margin as indicated in para(i) above: or
  - B. The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.
3. As per RBI notification vide RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated 14.03.2022 pricing of loans are detailed as below .

**Pricing of Loans**

Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

- (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;
- (ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
- (iii) The range of spread of each component for a given category of borrowers; and
- (iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

However, the pricing of Credit for Microfinance operations under NBFC umbrella is not defined and can be fixed based on internal policies. Currently, the lending rate for Microfinance operations under NBFC-Muthoottumini Financiers Ltd is fixed at 26% p.a with reducing balance method. However the rate of interest range will vary from 26% -30% based on risk assessment.

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